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ABSTRACT

This document highlights federal budget considerations for colleges of applied arts and technology in Ontario, Canada. A key focus of the budget is the Federal Government's Canadian Opportunities Strategy, which supports the acquisition of skills and knowledge required for the 21st century. The budget's emphasis on education over other social policy issues or health care indicates that education has become more politically attractive because it is perceived as an investment rather than an expense. Some general observations are made, including the inclusion in the budget of the Registered Education Savings Plans, which allow parents to save for their children's education, study grants for full- and part-time students with dependents, and new scholarships for students starting in 2000. The document highlights several items related to financial assistance for students, including: (1) the Millennium Scholarship Foundation, which distributes scholarships averaging $3000 a year for undergraduate degrees, diplomas, or certificates; (2) Canada study grants for students with dependents; (3) student loan repayment measures, including a 17% federal tax credit on payments of the interest portion of federal and provincial loans; and (4) measures intended to support families and students in meeting the costs of higher education, such as tax free withdrawals from Registered Retirement Savings Plan. Measures to increase youth employment, such as an employment insurance premium holiday, are also mentioned. Tax credit and deductions are also outlined as further measures to support continued education. (JJL)

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1998 Federal Budget Considerations for Colleges

Association of Colleges of Applied Arts and Technology of Ontario

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1998 FEDERAL BUDGET

CONSIDERATIONS FOR COLLEGES

February 24, 1998

As anticipated, the 1998 Federal budget included a number of measures intended to provide support to full- and part-time students for the costs of higher education as well as some modest tax relief for other Canadians. A key focus of the budget was the Federal Government's Canadian Opportunities Strategywhich is intended to support Canadians' acquisition of the skills and knowledge required for the 21stcentury.

The budget emphasis on education over other social policy issues or health care is important to note. Indications are that education has become more politically attractive as it is seen as an investment rather than an expenditure, and because it holds the key to positive economic messages like training and youth employment, and labour market growth.

General Observations:

Once again, the Finance Minister has presented a budget using conservative economic projections and including a $3 billion contingency fund which if not required will be applied to the National debt. The 1998 budget is the first balanced Federal budget in 28 years and the government has committed to zero- deficit budgets through to 2001.

Social transfer payments to the provinces for health, education and welfare will be modestly increased in 1998. The majority of new Federal spending, however, will be targeted in these areas as a way of ensuring that the Federal government receives credit. The surtaxes that were imposed to help balance the budget have not been fully eliminated and there are no new measures announced to assist seniors or to support health and social welfare.

The budget does however (i) provide support for parents to save for their children's education through Registered Education Savings Plans (RESPs), (ii) introduce measures to help students and graduates meet their financial obligations, (iii) include study grants for full- and part-time students in financial need who have dependants, and (iv)

provide scholarships for full- and part-time students starting in the year 2000. It also outlines a number tax relief measures for college and university graduates and other Canadians.

The cost of the education measures announced today total $650 million in 1998, a further $1 billion in 1999 and $1.2 billion in the year 2000. The combined debt reduction initiatives will cost Ottawa $800 million over the next three years, starting with $230 million in 1998. The tax changes are targeted to low and most income earners.

Highlights from this budget that Colleges should be aware of include the following:

Financial Assistance for Students:

1. Millennium Scholarship Fund:

A $2.5 billion endowment has been made to establish the Millennium Scholarship Foundation. Commencing in 2000, the Foundation will begin distributing scholarships averaging $3,000 a year to a total of $15,000 over four

academic years of study towards undergraduate degrees, diplomas or certificates. Scholarship criteria will be on the basis of both financial need and merit. It is anticipated that more than 100,000 full- and part-time students across Canada per year will benefit.

The main criticism of this initiative is that the funds are being booked now but students will have to wait until the year 2000 to financially benefit.

2. Canada Study Grants:

Students in financial need who have children or other dependents will be eligible for grants up to $3,000 a year. These grants will be eligible to both full- and part-time students. The announcement of this grant program will be of particular benefit to college students as colleges have a much higher proportion of married and sole support students than the universities.

3. Student Loan Repayment Measures:

As anticipated the budget has announced a number of

measures for an income sensitive repayment plan, all of which will benefit college graduates:

All students will receive a 17% federal tax credit on payments of the interest portion of federal andprovincial student loans;

The interest relief period will be extended for up to five years from the current three years after graduation for all students who are having difficulty making ends meet. Following this period, for hard pressed graduates the federal government intends to call on lending institutions to extend the repayment period from 10 to 15 years; and

For those graduates who remain financially pressed after these measures, the federal government will reduce a portion of the debt (to a maximum of $10,000 or 50% of the loan whichever is less) if annual payments exceed 15% (on average) of the graduate's annual income. To qualify, at least five years must have passed since the individual completed studies and they must have exhausted the interest relief provisions.

What is not clear, however, is how Ontario will respond to these new initiatives given their intentions for student assistance which they announced on February 20th. There are significant potential issues on the horizon for both students and institution around the development of federal and provincial student loans programs that conflict.

4. Saving for Education:

The Federal budget also introduces measures intended to support families and students meet the costs of higher education which will be of particular benefit to part-time students as well as those with dependents:

Effective January 1999, tax free withdrawals from Registered Retirement Savings Plans (RRSPs) up to $20,000 over four years ($10,000 in one year) in order to support full-time education and training of at least three months during the year. Students with disabilities will be exempt from the requirement that the studies be on a full-time basis;

Beginning in 1998, part-time students will be able to claim a portion of the Education Tax Credit and those

with dependents will be able to deduct child care expenses; and

Also beginning in 1998, the Federal government will provide a Canada Education Savings Grant as an incentive to save through Registered Education Savings Plans (RESPs). The grant will be 20% of the first $2,000 in annual contributions for children up to age 18, to a maximum grant of $400 per year.

Youth Employment:

In order to encourage employers to hire more young Canadians, the Federal government has announced the following measures:

An Employment Insurance premium holiday for employers who hire young Canadians in 1999 and 2000; and

Youth Service Canada, a Federal program that uses wage subsidies as a means of helping young Canadians get work experience in community projects, will be doubled in order to assist those who have not completed high school, particularly those

between the ages 20 and 24.

Other Measures:

An increase of $425 million beginning in July 1999 to the Canada Child Tax Credit program and a further $425 million in July 2000;

The child-care expense deduction will increase from $5,000 to $7,000 per child under age seven, beginning in 1998. For children between the ages of seven and 16 it will rise from $3,000 to $4,000;

A caregiver tax credit of up to $400 will be available to those who care for an elderly parent or a family member with a disability;

Self-employed and owner-operators of small businesses will be able to deduct premiums for health and dental insurance against their business income;

Effective July 1, the basis personal tax exemption will increase by $500 from $6,456 for individuals making under $20,000 and $1,000 for those families with a total income under $40,000;

The 3% general surtax will be eliminated July 1 for those individuals with incomes up to $50,000 and

reduced for those with incomes between $50,000 and $65,000; and

The Federal Economic Development Initiative for Northern Ontario (FedNor) will be maintained after 1998-99 at its current funding level of $20 million annually.

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